

## Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 EB-08 XMB-02 AID-05 CIAE-00

COME-00 FRB-03 INR-10 NSAE-00 ICA-11 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-05 H-01

L-03 NSC-05 PA-01 SS-15 STR-07 /098 W

-----058304 101004Z /13

P 100926Z MAY 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 7791

C O N F I D E N T I A L TOKYO 08384

PASS TREASURY AND EXPORT-IMPORT BANK

E.O. 11652: GDS

TAGS: EFIN, EEW, JA

SUBJECT: FINANCING UNDER JAPAN/CHINA LTA

REF: (A) TOKYO 2463, (B) TOKYO 3490, (C) TOKYO 5737

1. SUMMARY: PRESS REPORTS SUGGEST PRESSURES ARE GROWING ON GOJ TO USE OFFICIAL RESERVES TO FACILITATE LOWER INTEREST RATES ON FUNDS MADE AVAILABLE TO CHINA IN CONNECTION WITH THE LONG-TERM TRADE AGREEMENT (LTA). WITHOUT ASSUMING THAT THE GOJ WILL FOLLOW THIS ROUTE, EMBASSY BELIEVES IT WOULD PROBABLY BE USEFUL TO MAKE U.S. VIEWS KNOWN. GUIDANCE REQUESTED. END SUMMARY.

2. PRESS REPORTS PROMINENTLY IN MAY 9 MORNING EDITIONS OF NIHON KEIZAI SHIMBUN ACW SANKEI SHIMBUN, STATE THAT THE JAPANESE GOVT IS UNDER PRESSURE TO USE OFFICIAL FOREIGN CURRENCY RESERVES IN ORDER TO FACILITATE CHINESE SETTLEMENTS FOR IMPORTS FROM JAPAN UNDER THE LONG TERM TRADE AGREEMENT. ALTHOUGH THE REPORTS DIFFER ON DETAILS, BOTH INDICATE THAT THE FUNDS WOULD BE DEPOSITED WITH THE BANK OF CHINA EITHER DIRECTLY BY THE JAPANESE GOVT OR  
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INDIRECTLY THROUGH JAPANESE COMMERCIAL BANKS. IT IS APPARENTLY ENVISAGED THAT LOWER-COST OFFICIAL FUNDS WOULD SUPPLEMENT FUNDS MADE AVAILABLE BY COMMERCIAL BANKS FROM OTHER SOURCES (E.G. THE EURODOLLAR MARKET), WITH A VIEW TO BRINGING THE RATE ON DEPOSITS WITH THE BANK OF CHINA DOWN TO THE 6 TO 6 1/2 PCT RANGE. MATURITIES ARE NOT MADE CLEAR, BUT WOULD PRESUMABLY BE FAIRLY LONG, AT LEAST

IN PRACTICE.

3. AS REPORTED REFTELS, THE JAPANESE GOVT HAS BEEN UNDER HEAVY PRESSURE FROM CHINA AND JAPANESE EXPORTERS TO WORK OUT SOME WAY TO ACCOMMODATE CHINA'S DEMAND FOR MODERATE INTEREST FINANCING FOR THE PLANTS AND EQUIPMENT CHINA WILL IMPORT UNDER THE LTA. THE JAPANESE GOVT HAS APPARENTLY CONSISTENTLY AND SUCCESSFULLY MAINTAINED THAT IT COULD NOT OFFER DIRECT EXIM LOANS AT LESS THAN EXPORT CREDIT ARRANGEMENT RATES BUT IS REPORTED TO HAVE SUGGESTED DEPOSITS WITH THE BANK OF CHINA AS ONE POSSIBLE ALTERNATIVE) (REFTELS). THE CHINESE ARE ALSO REPORTED TO HAVE SUGGESTED SETTLEMENT IN YUAN BUT JAPANESE EXPORTERS HAVE RESISTED THIS APPROACH.

4. ALTHOUGH ONE PRESS REPORT SUGGESTS THAT A POLITICAL LEVEL DECISION HAS ALREADY BEEN MADE TO UTILIZE THE FOREIGN EXCHANGE RESERVES TO FACILITATE CHINESE SETTLEMENTS UNDER THE LTA, MOST REPORTS INDICATE THAT THE DECISION HAS NOT YET BEEN MADE. SANWA BANK REPORTEDLY JUST VISITED CHINA TO DISCUSS POSSIBLE FINANCING SOLUTIONS; THE BANK OF TOKYO IS RUMORED TO BE SCHEDULING A SIMILAR VISIT TO CHINA FOR AROUND MAY 20; AND THE BANK OF CHINA WILL REPORTEDLY VISIT HERE AROUND THE END OF THE MONTH.

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5. COMMENT: EMBASSY WOULD APPRECIATE GUIDANCE FROM DEPT AS TO ATTITUDE TO BE TAKEN TOWARD USE OF JAPANESE OFFICIAL RESERVES FOR FACILITATING SETTLEMENTS -- BASICALLY THROUGH LOWER INTEREST RATES -- UNDER CHINA LTA. FROM HINTS IN THE PRESS, IT APPEARS THAT, WHILE JAPANESE AUTHORITIES DO NOT BELIEVE THAT SUCH USE WOULD VIOLATE THE EXPORT CREDIT ARRANGEMENT, THEY ARE NOT UNCONCERNED ABOUT OTHER REPERCUSSIONS. OFFICIAL RESERVES HAVE BEEN PREVIOUSLY PLACED WITH COMMERCIAL BANKS AT RATES WHICH, ALTHOUGH APPARENTLY SOMEWHAT UNDER EURODOLLAR RATES, ARE RELATED TO DEPOSIT RATES IN THE U.S. (ACCORDING TO ONE PRESS ACCOUNT). HOWEVER, EVEN SUCH A LOWER RATE, WHEN COMBINED WITH FUNDING FROM THE EURODOLLAR MARKET, APPARENTLY WOULD NOT BE LOW ENOUGH TO ALLOW THE COMMERCIAL BANKS TO SATISFY CHINESE DESIRES ON INTEREST RATES, AND JAPANESE COMMERCIAL BANKS ARE SAID TO BE URGING THE GOVT TO LOWER RATES ON OFFICIAL RESERVE DEPOSITS FOR FUNDING THE LTA. EMBASSY IS CONCERNED THAT USE OF OFFICIAL RESERVES ALONG LINES RUMORED, EVEN ASSUMING THAT SUCH ACTION DID NOT CONTRAVENE THE EXPORT CREDIT ARRANGEMENT, WOULD OPEN UP NEW AND CONTROVERSIAL FORMS OF COMPETITION IN EXPORT CREDIT. WHILE WE WOULD CAUTION AGAINST ASSUMING THAT THE GOJ WILL

IN THE FINAL ANALYSIS OPT TO USE OFFICIAL RESERVES IN THIS FASHION, WE WOULD BE INCLINED TOWARD MAKING OUR VIEWS KNOWN TO THE JAPANESE IF ONLY TO ASSIST THEM IN RESISTING CHINESE, AND JAPANESE BUSINESS, PRESSURES. A LOW-KEY APPROACH WOULD OBVIOUSLY BE DESIRABLE, BUT WE SUSPECT THAT IN THE FINAL ANALYSIS OUR APPROACH WOULD BECOME PUBLIC KNOWLEDGE. IN ANY EVENT, IF WE ARE GOING TO REGISTER OUR VIEWS, WE SHOULD DO SO PROMPTLY -- BEFORE THE JAPANESE BECOME LOCKED IN IF POSSIBLE. MANSFIELD

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## Message Attributes

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